BANK OF ENGLAND

Agents' summary of business conditions

May 2017 Update

- Consumer spending growth had moderated in real terms, as spending power had been hit by higher prices. But manufacturing export growth had risen. That had mostly reflected the effects of the earlier decline in sterling. Investment intentions had also edged higher and were consistent with modest growth in spending over the year ahead.
- In the labour market, recruitment conditions had tightened a little further, with skills shortages reported in a wider range of activities. Labour costs growth had edged up in manufacturing. But pay awards remained clustered around 2%–2½% across the economy.
- Consumer goods price inflation had picked up markedly. That largely reflected the effects of sterling's earlier fall feeding through supply chains and into retail prices. Consumer services price inflation had also increased, but to a lesser degree.

Consumer spending growth had moderated in real terms, as spending power had been hit by higher prices, following the fall in sterling. However, higher prices had been associated with slightly stronger retail sales growth in values terms (**Chart 1**).

Business services turnover growth had risen further to a moderate rate, following a dip after the EU referendum (**Chart 2**). Mergers and acquisitions activity had picked up overall. Services exports growth had been steady.

Manufacturing output growth had strengthened (**Chart 3**). Automotive and aerospace companies reported robust growth. More generally, activity growth in export supply chains had increased, reflecting the earlier fall in sterling. A survey indicated that further growth in exports was expected over the coming year (see the box on page 2).

Construction output growth had edged up, reflecting a strengthening of commercial development.

Investment intentions were consistent with modest growth in spending over the next twelve months. That reflected largely resilient demand growth. Uncertainty continued to affect adversely some longer-term spending plans.

Credit availability had tightened slightly for small and medium-sized companies, but financing remained readily available generally. Corporate credit demand had remained muted.

Investor demand for UK **commercial real estate** had increased, particularly in some of the larger regional centres. Rents were flat to modestly rising across the United Kingdom.

Housing market activity had remained muted. Both the demand for, and supply of, available property was subdued, but broadly in balance overall.

Capacity utilisation was little changed and close to normal levels. Excess capacity had continued in the retail sector.

Employment intentions were little changed and pointed to very modest jobs growth over the coming six months (**Chart 4**). Recruitment difficulties had tightened since the start of the year, with skills shortages reported in a wider range of activities.

Labour cost growth had edged up in manufacturing. Pay awards remained clustered around 2%–2½% across the economy.

Input cost inflation had increased, due to rises in some global commodity prices and pass through of the earlier fall in sterling (**Chart 5**). Manufacturing output price inflation had risen further, as some earlier fixed-price contracts and foreign exchange hedges expired.

Consumer goods price inflation had risen sharply, as higher costs fed through (**Chart 6**). Inflation in retail services prices had also increased, but to a lesser degree.

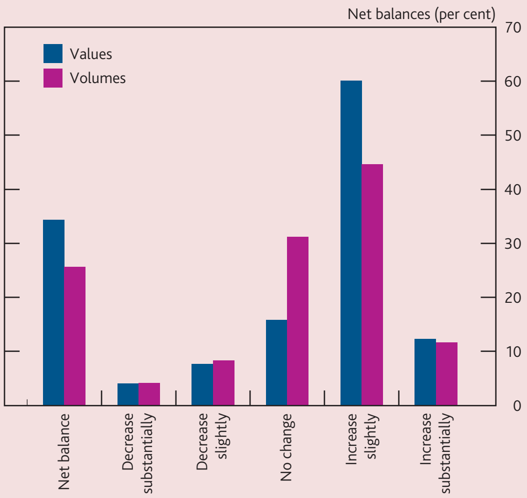
This publication generally covers intelligence gathered from business contacts between March and mid-April 2017. It generally makes comparisons with activity and prices over the past three months on a year earlier. The Update represents the aggregate view offered by the whole of the United Kingdom. More information on the Bank's Agencies can be found at www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx.

Agents' survey on exports

The Agents surveyed business contacts about expectations for the sterling value and volume of their UK exports over the next year. Contacts were also asked which factors were likely to affect the sterling value of their exports over the coming year and in three years' time, given the prospect of the United Kingdom's departure from the European Union. Around 300 companies responded. Results were weighted by export turnover and, for the headline results, reweighted by the goods and services shares of UK exports.

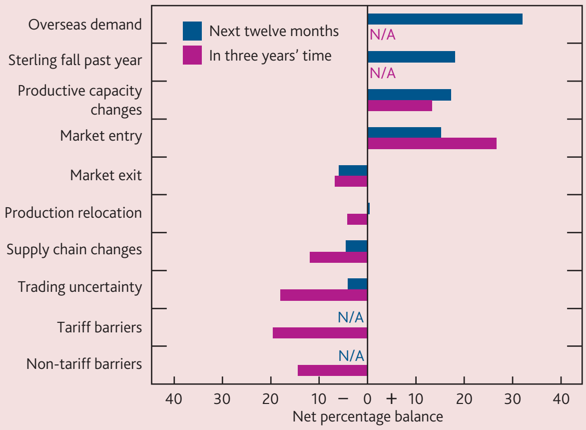
On balance, respondents expected an increase in both the sterling value and volume of exports over the coming year (**Chart A**). The net balance was stronger for values than volumes, implying that sterling export prices were expected to increase over the next twelve months. In the case of export values, the expectations balance was more positive than in the Agents' exports surveys over the past few years. Both goods and services exporters expected export values and volumes to grow over the next twelve months, but the expectations of goods exporters were more positive.

Chart A Expectations for exports over the year ahead



In terms of the factors affecting the sterling value of exports over the next twelve months, overseas demand was expected to provide the greatest support. The fall in sterling over the past year, changes to respondents' productive capacity in the United Kingdom and entry to new markets were also expected to increase export values (**Chart B**). In contrast, exit from existing markets, changes in supply chains due to the prospect of the United Kingdom's departure from the European Union and uncertainty around the United Kingdom's future trading arrangements were thought to exert a modest drag on export values over the year ahead.

Chart B Factors affecting export values



Among the factors affecting future growth in sterling export values over the medium term, respondents expected the entry to new markets to be the most important factor. Expected changes in tariff barriers and non-tariff barriers were cited by respondents as negative influences in three years' time (**Chart B**). The expected drags from trading uncertainty and supply chain changes were larger than over the next twelve months. However, the overall expected negative influence on export values from market exit was similar at both the one and three years' ahead time horizons.

Selected charts of the Agents' national scores

Chart 1 Retail sales values and consumer services turnover

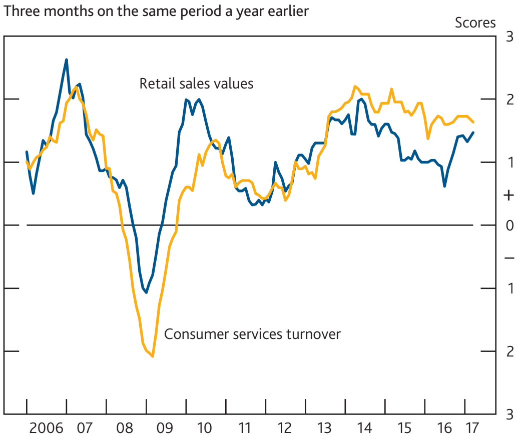


Chart 2 Business services turnover

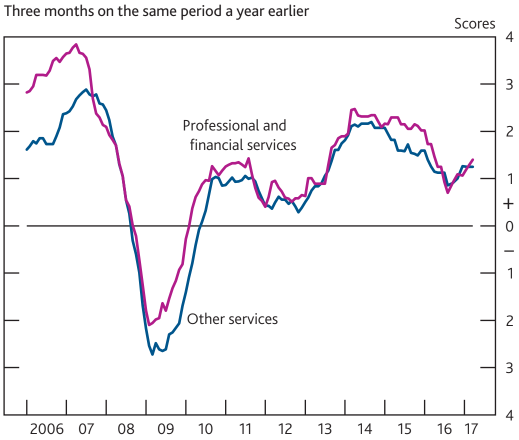


Chart 3 Manufacturing output

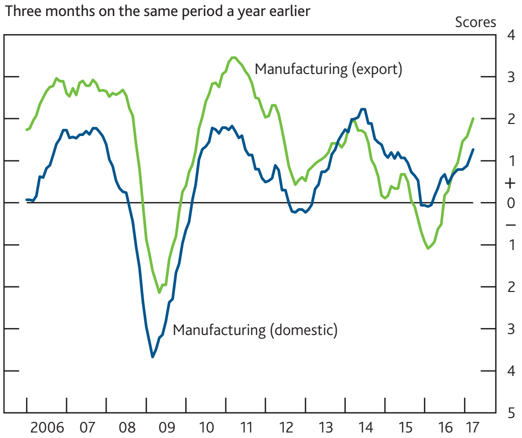


Chart 4 Employment intentions

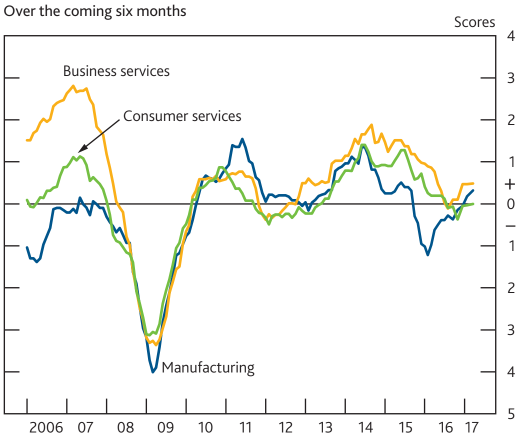


Chart 5 Materials costs and imported finished goods prices

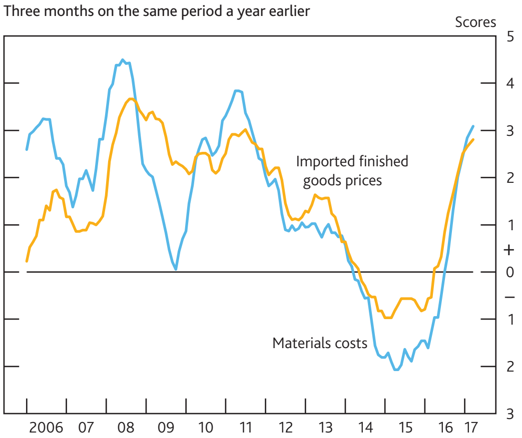
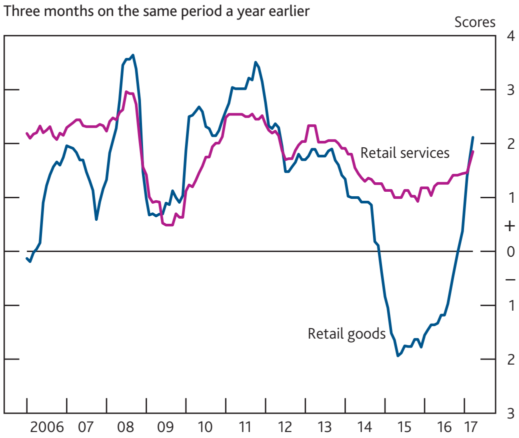


Chart 6 Retail goods and services prices



For data on the full set of Agents' scores see www.bankofengland.co.uk/publications/Documents/agentssummary/agentsscores.xlsx.